

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

*This Management's Discussion and Analysis ("MD&A"), prepared as of September 25, 2013, should be read in conjunction with the condensed consolidated financial statements of Canada Energy Partners Inc. (the "Company") for the period ending July 31, 2013, and related notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. All figures are stated in Canadian dollars unless otherwise indicated.*

Additional information related to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.canadaenergypartners.com](http://www.canadaenergypartners.com).

### **Company Overview**

Canada Energy Partners Inc. is an independent natural gas exploration and development company primarily focused on unconventional resource opportunities in northeast British Columbia. The Company was formed on May 18, 2006, and became a publicly listed entity under symbol "CE" on the TSX Venture Exchange on November 22, 2006. The Company was formed for the purpose of acquiring interests in the Peace River Coalbed Methane ("CBM") Project and became an active explorer in northeast British Columbia. The Company does not generate sufficient cash flow from operations to adequately fund its future activities and has relied principally upon issuance of securities to fund its exploration, development and administrative expenditures. The Company will require additional capital to fund its future property acquisitions and its exploration and development programs as well as for administrative purposes but there is material uncertainty about whether the Company will be able to obtain additional capital. These conditions raise significant doubt regarding the Company's ability to continue as a going concern.

Canada Energy has accumulated 107 gross sections or approximately 67,918 gross acres of drilling licenses in northeast British Columbia. The Company has three project areas: Peace River, Monias, and Moberly.

### **Significant Events**

The Company announced August 12, 2013 the closing of a private placement of the Company's stock of 5 million shares at \$0.10 per share for total proceeds of \$500,000. There were no brokerage fees associated with this offering. The shares issued are subject to a mandatory 4 month hold.

On August 6, 2013, the Company announced its year-end reserve and resource update. Reserves were essentially unchanged but the Company received a significant attribution of Contingent Resources of 173 billion cubic feet, largely as a result of Shell Canada's drilling results immediately offsetting the Company's Monias property.

On July 24, 2013, the Company announced the resignation of 2 directors, the appointment of 2 replacement directors, the issuance of 2,515,000 share options at a \$0.10 per share exercise price, and the cancellation of 2,544,000 share options. Another 1,501,000 share options will expire October 20, 2013.

Effective January 15, 2013, the Company released a third party from certain oil and gas development obligations in exchange for \$210,000 cash; the establishment of a line of credit of up to \$540,000 at an interest rate of Prime + 4% for the period up to December 31, 2014 to cover certain land related expenses; and for the third party to assume operations of the Company's Peace River CBM Project thereby relieving the Company of the P&A bond commitment to the BCOGC until at least December 31, 2014. The balance of the line of credit outstanding at July 31, 2013 was \$123,199. The Company also granted the third party a 12 month first-right-of-refusal on the Company's Montney assets and a right to participate in any equity financings the Company may undertake during the 12 month period to January 15, 2014.

The Company has transferred operations of its Peace River CBM Project to the third party, but the Company retains the right during the two year period to reassume its role as operator at the Company's election. After two years, the Company is required to reassume the role of operator of the Peace River CBM Project and to repay the outstanding amounts. The

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

Company has provided a fixed charge security over its Monias lands in support of its performance obligations under these agreements.

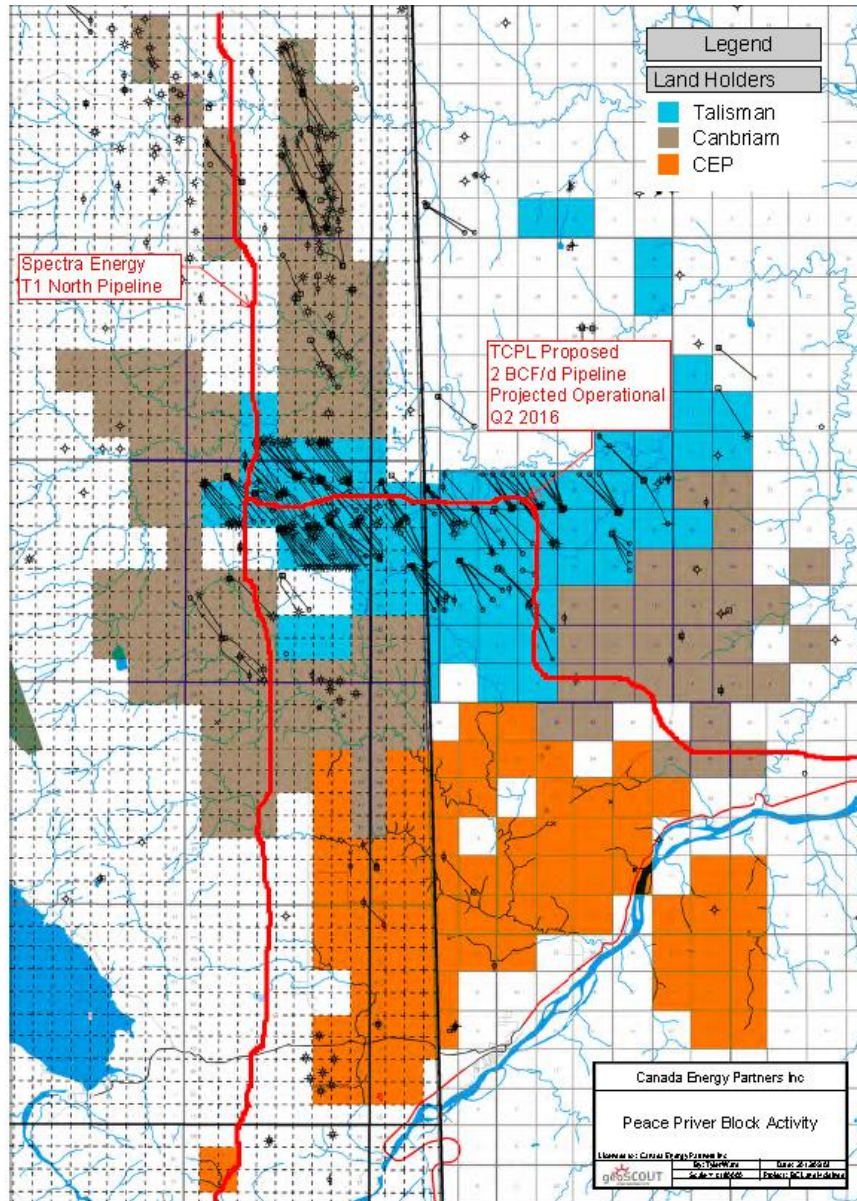
During the year ended July 31, 2013, and up to the date of this report, there was no exploration or development activity on the Company's lands. However, adjacent operators continued to report results confirming the merits of the Montney proximal to the Company's lands.

On June 26, 2012, the Company acquired all of the outstanding shares of Hudson's Hope Gas, Ltd. ("HHG", the 50% owner and the Operator of the Company's Peace River Coalbed Methane ("CBM") Project), from GeoMet Inc. ("GeoMet"), for a consideration of 2 million shares of the Company. The Company believes this is a strategic acquisition for the following reasons: (1) The acquisition consolidates operations and 100% ownership of the CBM Project into the Company. (2) The acquisition adds approximately 230 BCF of CBM gas resource potential, bringing the CBM project total up to 500 BCF (this resource potential can only be commercialized under higher gas prices) (3) The acquisition secures 100% ownership of the Peace River gas plant which is strategic to both the CBM and Montney Shale developments. (4) It solidifies ownership and control within the Company of two water disposal wells, along with rights to drill additional disposal wells in the future, which are strategic to both CBM and Montney Shale developments. The Company believes that this acquisition was achieved at a very attractive price due to the depressed gas market; and that the consolidation of interests and operations of the CBM Project, the gas plant, and the disposal wells will be strategic in the advancement of both the CBM and Montney plays when gas prices recover.

Proximal to the Company's Peace River lands, Talisman has drilled 80 Montney wells on its Farrell Project and continues its developmental drilling with three rigs active in the Field, down from 10 rigs in Q1 2012. Recent drilling has been as close as one mile from the Company's leasehold (c.f. map below). Performance based evaluation of their initial wells indicates the Farrell wells should recover 7 BCF/well with average initial potentials of 6 million cubic feet per day. Talisman estimates potentially recoverable gas at 116 BCF per section with the PV10% breakeven estimated to be at \$3-3.50/mcf gas prices. Their recent mid-stream expansions include cryogenic natural gas liquids recovery equipment as the eastern portions of the Farrell Project have recoverable liquids. The Company believes that a significant portion of its Peace River lands are on thermal strike with Talisman's eastern acreage and, hence, may also have commercially recoverable liquids.

TransCanada Pipeline has proposed a 2 billion cubic feet per day pipeline that is proposed to pass within a mile of the Company's northeast lease line at Peace River. The projected operational date is Q2 2016. This pipeline should ease and economize future development and tie-in work on the project and assure pipeline access and capacity.

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**



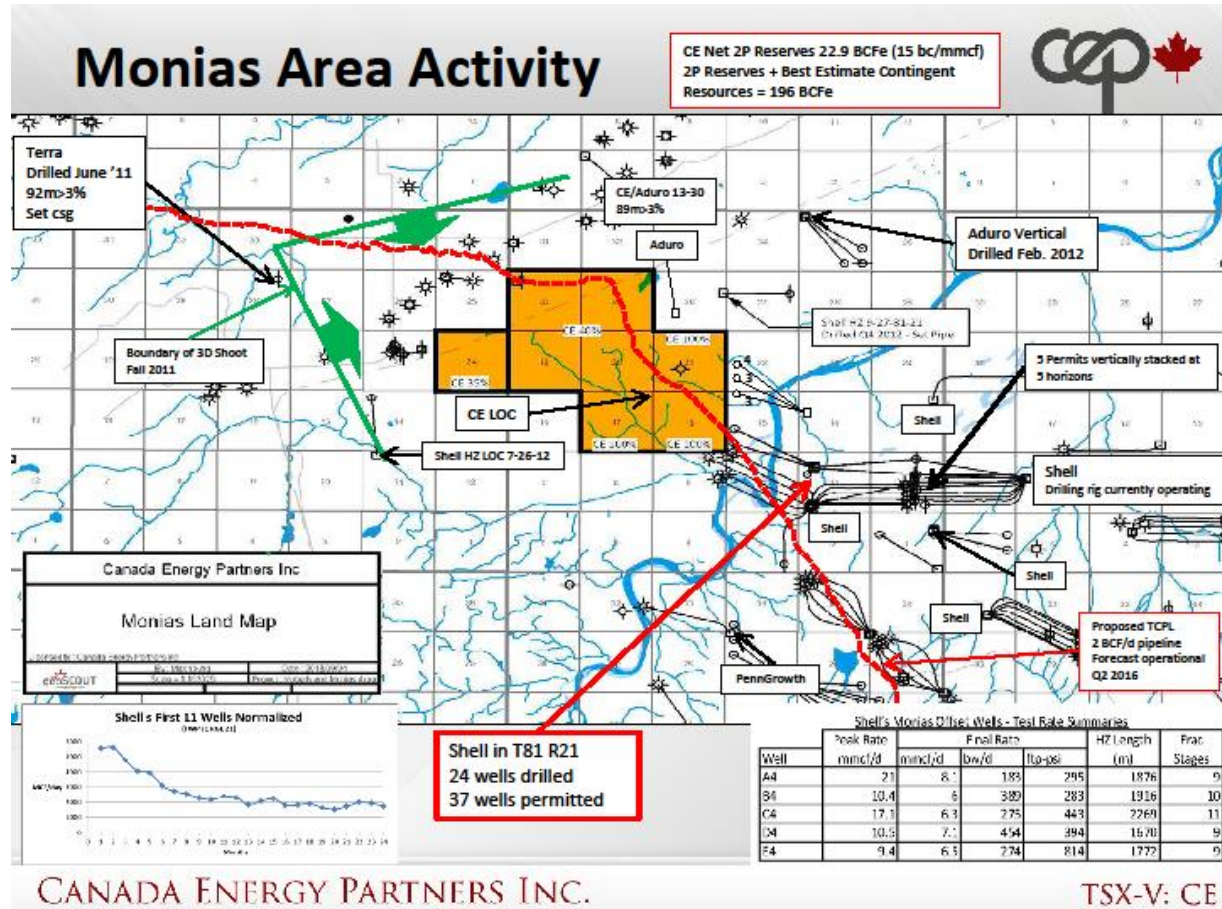
Proximal to the Company’s Monias land, Shell Canada (“Shell”) has drilled 24 wells within three miles of the Company’s lease boundary with some being drilled within 150m of the Company’s boundary (see map below). In Q4 2012, Shell drilled 3000’ northeast of the Company’s Monias lands. Shell has permitted 37 additional wells in the same area.

As shown on the map below, Shell Canada is intensively developing the Montney immediately adjacent to the Company’s Monias lands and seeing exceptional results. Shell has drilled 24 wells within 3 miles of the Company’s lease boundary with one being drilled within 150m of the Company’s boundary. Log and core evaluation of the Shell wells evidence extraordinary reservoir quality in the Upper Montney relative to the Heritage/Groundbirch/Septimus/Monias area and these well tests corroborate that log evidence. The five Shell wells drilled closest to the Company’s lands had initial test rates of 6-8 million cubic feet per day. Shell has permitted 37 additional wells in the same area. Shell’s permitting activity indicates they are stacking laterals 3 to 5 deep in the Upper Montney which would imply 12-20 wells per section. GLJ’s analysis indicates an average estimated ultimate recovery per well (“EUR”), on a proved and probable basis, of 4.5 BCFe per well with +/-14 barrels of natural gas liquids per million cubic feet. The Company has 5 net sections at Monias which could yield 60-100 drilling locations.



**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

On August 6, 2013, TransCanada Pipeline announced their commitment to build a new \$1.5 billion, 2 billion cubic foot per day pipeline that will directly cross the Company's Monias property and pass within 1 mile of the northeast corner of Company's Peace River property. The section in proximity to the Company's properties is projected by TransCanada to be operational in the second quarter of 2016. This new pipeline should provide additional gas transportation opportunities for the Company, potentially reduce future tie-in costs, and increase net-back prices of its gas.



CANADA ENERGY PARTNERS INC.

TSX-V: CE

The Company's reserves are summarized below. The year-over-year reserves are essentially unchanged from last year. 7.1% of the Company's Montney lands have booked reserves.

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

Canada Energy Ptnrs Reserves	CE Net BCFe*	Undisc CF C\$MM	PV10% C\$MM
CE Montney			
Proved	8.9	\$ 12.6	\$ 2.2
Proved + Probable	25.0	\$ 49.1	\$ 12.5
Proved + Probable + Possible	31.9	\$ 76.1	\$ 22.6
CE Peace River CBM			
Proved	0.4	\$ 0.6	\$ 0.4
Proved + Probable	23.5	\$ 77.8	\$ 30.8
Proved + Probable + Possible	102.5	\$ 277.6	\$ 81.4
<b>CE Reserve Totals=</b>	<b>134.4</b>	<b>\$ 353.7</b>	<b>\$ 104.0</b>

\*6:1 Gas/Oil ratio

The Company's resources are summarized below. Offset drilling adjacent to the Company's Monias property has resulted in attribution of 173 BCFe of Contingent Resources to the Monias property, with a liquids component of 14 barrels per million cubic feet. The Company had no Contingent Resources on this property last year. Montney Contingent Resources are ascribed to only 10.5% of the Company's Montney lands and the remainder are all attributable to the Monias property.

Canada Energy Ptnrs Resources	CE Net BCFe*	Undisc CF C\$MM	PV10% C\$MM
CE Montney			
Best Estimate Contingent Resources	173.1	\$ 417.4	\$ 76.1
CE Peace River CBM			
Best Estimate Contingent Resources	394.1	\$ 1,218.0	\$ 294.9
<b>CE Contingent Resource Totals =</b>	<b>567.2</b>	<b>\$ 1,635.4</b>	<b>\$ 371.0</b>

\*6:1 Gas/Oil ratio

The Company owns 100% of three sections adjacent to the Shell property and a total of five net sections within the Monias block.

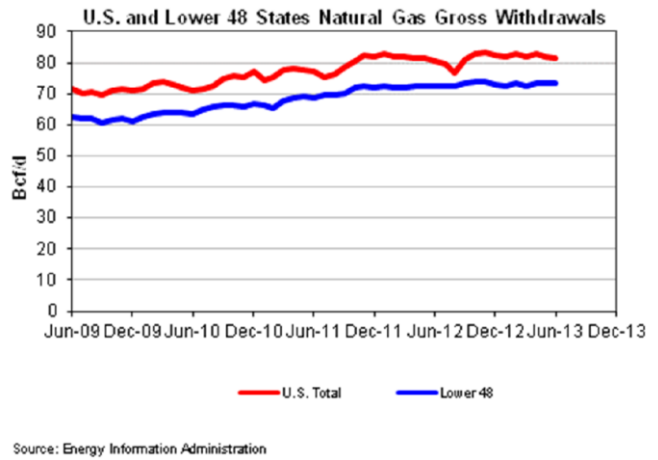
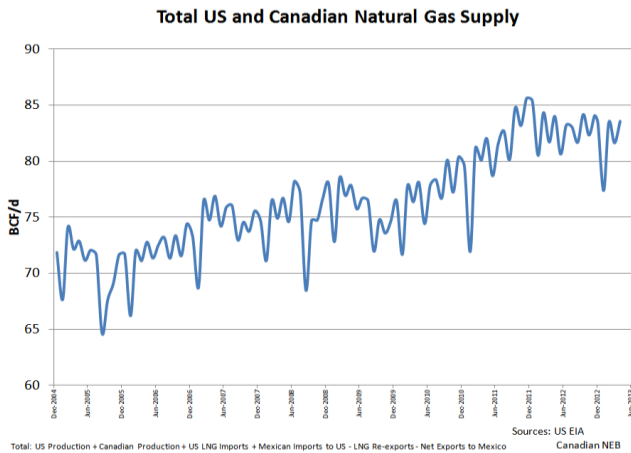
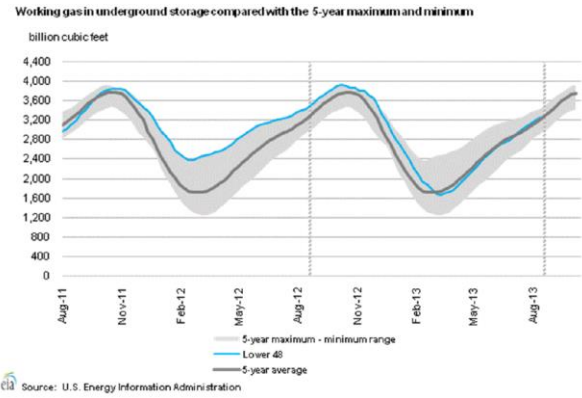
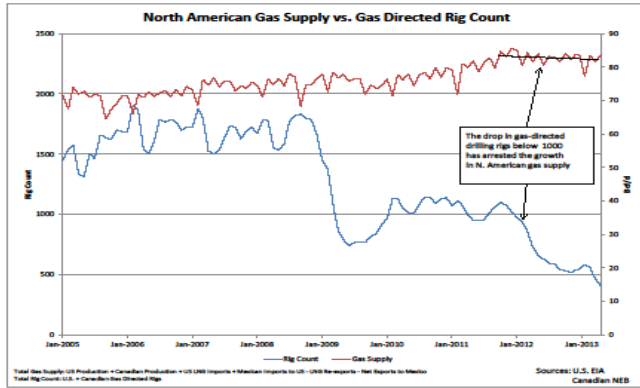
**Outlook**

The last five years have seen the greatest financial disruption since the Great Depression and the collapse of the natural gas market resulting in an 86% peak-to-trough price decline. This tandem has battered the Company's stock price. Nevertheless, in those same five years, the Company has established a large, long-tenured land base, confirmed 2.7 trillion cubic feet of gas resource potential on its lands, established 48.5 billion cubic feet equivalent of 2P reserves, all while maintaining a positive working capital balance and limiting itself to one equity sale. The North American gas market has also gone through a dramatic supply-demand reset and, in the Company's opinion, has bottomed out and is strengthening, being up 68% from its April 2012 lows. Gas inventories have dropped from a year-over-year average of 890 BCF to a YOY deficit of 297 BCF. Gas directed rig counts are at 20 year lows. US gas production has been

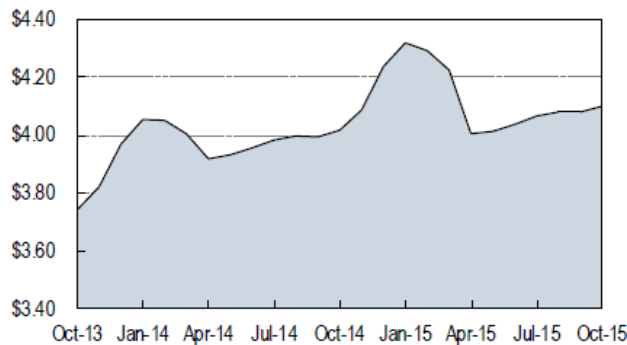
# CANADA ENERGY PARTNERS INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED JULY 31, 2013

essentially flat for a year and declined in the most recent month and Canadian gas production has declined in the last year. North American demand is at all-time highs with expectations of continued growth. These improving fundamentals are reflected in the natural gas futures pricing



### Forward Henry Hub Gas Strip (US\$/mmtbu)



**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

The anticipation of LNG export facilities on the west coast of British Columbia has fuelled a number of transactions among predominantly Pacific Rim gas buyers. As one of the few politically stable, fully free market nations whose natural resources are available to international buyers, Canada has become the source of choice for many international companies seeking long-term gas supplies. This enthusiasm is manifested in the \$15.9 billion of transactions in the British Columbia Montney theatre. The weighted average value of these transactions is \$13,858 per acre, as compared to the Company's Montney lands being valued by the stock market at approximately \$490 per acre at the current trading value of the Company's common shares.

**Significant Montney Transactions (in CE area)**

Comparable Transactions	Area	Date	Total Value (\$MM)	Estimated Undeveloped Land Value (\$/ac)
Crown Land Sale	Altares	Oct 2009	\$ 275	\$5,500
**Penngrowth- Monterey	Groundbirch	July 2010	\$ 366	\$ 5,000
**Talisman-Sasol (1)	Altares	Dec 2010	\$ 1,050	\$ 29,700
Talisman-Sasol (2)	Cypress	March 2011	\$ 1,050	\$ 32,000
Progress-Petronas (3)	Altares-Lily-Kahta	June 2011	\$ 1,070	\$ 14,720
**Daylight-Sinopec	Various + Monias	Oct-11	\$ 2,200	Inadequate data
Encana-Mitsubishi (4)	Cutbank Ridge	Feb 2012	\$ 2,900	\$ 17,726
**Shell - PetroChina	Groundbirch	Feb 2012	\$ 1,050	Inadequate data
Petronas-Progress (4)	Altares-Town	June 2012	\$ 5,800	\$ 6,880
Crew - Painted Pony(4)	Kobes	Dec 2012	\$ 108	\$ 6,835
Terra – Crew (4)	Monias-Septimus	Dec 2012	\$ 22	\$ 611
Terra - Crew	Attachie-Goose	March 2013	\$ 20	\$ 529
Terra - Crew	Misc.	June 2013	\$ 36	\$ 694
<b>Total=</b>			<b>\$ 15,947</b>	
Total without unevaluated deals=			\$ 12,697	
Weighted average price per acre =				\$13,858
CE \$/acre Valuation at current CE trading value of \$0.16 per share =				\$490

\*\* Within or adjacent to CE land positions.

- (1) Average price per BMO, CIBC, and Dundee
- (2) CIBC evaluation
- (3) PLS Canadian Acquirer 6-17-11 evaluation
- (4) CIBC evaluation

With the June 26, 2012 acquisition of its joint venture partner, Hudson's Hope Gas, Ltd. ("HHG"), a subsidiary of GeoMet Inc. (NASDAQ: GMET), the Company now owns 100% of the Peace River CBM gas plant which can be adapted to Montney production with minor modifications. The Company is evaluating several innovative drilling and completion techniques which have the potential of enhancing the economic profile of the CBM resource. The Company anticipates reactivating several of the CBM wells if and when the Montney wells are connected to the Peace River gas plant; but this will be subject to acceptable financing and gas prices. We will continue to seek additional exploration and acquisition opportunities in northeast BC.

The Company will have to recapitalize its balance sheet in order to finance the development of its properties. The Company will pursue this goal by seeking one or more of the following: a farmout, a joint venture, a partial asset sale, a merger, project finance or the issuance of additional equity.

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

The Company is well positioned with long tenures on most of its leases. The Company has no firm work obligations to maintain its leases until mid 2014. The Company believes that gas prices will strengthen in the intermediate term and, because of its relatively unleveraged balance sheet, long lease terms, and lack of pressing capital expenditure obligations, can be patient in its effort to maximize shareholder value.

**Projects Overview**

**Joint Venture with Crew Energy Inc.**

In March 2008, the Company entered into a joint venture agreement with Crew Energy Inc. (TSX: CR; "Crew Energy" or "JV Partner") to explore the Montney/Doig Formation on Canada Energy's Peace River and Moberly prospects in northeast British Columbia. Crew Energy operates the project and has earned a 50% working interest in the subject lands. Crew has experienced significant success in the Montney formation in northeast British Columbia in their Septimus Project east of Peace River project, having tested the Montney at rates up to 17.6 MMCF/D. Canada Energy believes that Crew brings strategic expertise in the Montney to the Joint Venture.

**Peace River Project**

Crew has completed a 28.5 square mile three-dimensional seismic survey of the Peace River Project in 2008. One Montney well was drilled, cased, and tested in two zones during 2008-09 and is shut-in pending completion. Several prospective deep formations, including the Montney, have been identified in this well and on the three-dimensional seismic survey. Under the Joint Venture Agreement, the JV Partner has drilled and tested two horizontal wells: Portage c-20-E and Portage 3-12-82-26. Both wells are shut-in pending pipeline connections.

**Portage c-20-E**

The c-20-E was drilled in the first quarter of 2010 and initially completed in June 2010, testing between 1.7 and 2.7 million cubic feet per day during a ten day test. The lateral length was 1,000 meters and was fraced with four stages. This is approximately half the length and half the sand placement of a typical development well in the area. The Company elected to re-test the c-20-E well based on evidence from U.S. shale basins that an extended shut-in period after initial completion can result in improved performance. The initial re-test of the Portage c-20-E was prematurely terminated due to safety concerns due to potential metal fatigue associated with the significant pressure drop at surface and extreme cooling. Subsequently, the necessary heating equipment was installed to allow testing of the well to continue with regard to safety. The well was re-opened for a two day flow period, during which the peak flow-rate was 9.7 million cubic feet per day. A stabilized flow rate of 4.4 million cubic feet per day was experienced at the end of the test, with the well performing at an average rate of 6.6 million cubic feet per day for the final two day period. The c-20-E re-test results of 1,100 mcf/d per frac treatment compares very favorably with the Talisman completions on their Farrell Project five miles to the north where the fracture treatments from the Upper Montney have averaged 540 mcf/d per fracture treatment.

**Portage 3-12-82-26**

The Operator performed a 5-stage fracture treatment comprised of 25 perforated intervals over the 1,826m lateral and placement of 1,500 tonnes of sand. This is 2.2 times the volume of sand and 2.2 times the perforated intervals as were conducted on the first horizontal well at Peace River, the c-20-E. The Operator reduced the number of frac stages from the original design by expanding the treated interval per frac stage. Over a 16 day flow test period, the well had a peak flow-rate of 4.5 million cubic feet per day and an end rate of 1.2 million cubic feet per day. The Company believes that this end rate was adversely affected by persistent water and sand production and that improved long-term performance is possible.

Due to the difference in results at c-20-E over time, the well was re-tested in March 2011 for 48 hours yielding a peak rate of 10 million cubic feet per day ("mmcf/d"), an average rate over the test period of 4.8 mmcf/d and a stabilized end rate of 2.4 mmcf/d. The Portage 3-12 was re-tested as follow-up to the successful re-test of the Portage c-20-E, as announced by the Company on December 13, 2010. These two re-tests appear to confirm the benefits of 'resting' a well for an extended period after initial completion, after which flow capacity improves.



**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

The Company owns 100% of the Peace River CBM gas plant which can be adapted to Montney production with minor modifications. It is also notable that there remain three untested formations (Doig Siltstone, Doig Phosphate, and Lower Montney) that have been deemed commercial by adjacent operators in the area with large confirmed in-place gas resources.

Area Activity

Talisman Energy Inc. continues to be very active in Montney exploration on their Farrell Project, which is on tectonic and depositional strike with (and immediately north of) the Company's Peace River Project. They currently have two drilling rigs operating in the Farrell field.

On December 20, 2010, Talisman announced that it had paired with South African energy and mining giant Sasol Ltd. in a \$1.05-billion development agreement for its Farrell Project. Talisman announced that the play has been largely de-risked and production at Farrell Creek is expected to exit this year at between 40-60 mmcf/d. Talisman's processing facilities at Farrell Creek have been expanded to 120 mmcf/d and the company has secured over 500 mmcf/d of egress capacity from the region. As part of the agreement, the partners agreed to conduct a feasibility study around the economic viability of a facility in western Canada to convert natural gas to liquid fuels, using Sasol's commercial Gas to Liquids (GTL) technology. Talisman has announced that they do not intend to pursue GTL but Sasol has announced their intention of a GTL installation in Alberta. This could provide a strategic alternative to traditional North American pipeline or LNG marketing. The outlook for GTL could be very positive if North American natural gas prices continue to decouple from oil prices. The GTL process produces premium, clean liquids fuels.

On March 8, 2011, Talisman announced a second \$1.05 billion joint venture with Sasol in its Montney properties and that they would apply a significant portion of that joint venture's funds to the Farrell Project. Embedded in these announcements was Talisman's assessment of 116 BCF per section of potentially recoverable gas (7 BCF per well EUR) from the four Triassic shale formations that have been deemed commercial by Talisman.

Canbriam Energy is also active immediately north of the Company's Peace River Project having drilled 3 vertical Montney wells and four horizontal wells. Notably, they have announced excellent results in the Lower Montney of 1 million cubic feet per frac stage. Canbriam has recently announced a Lower Montney test at Farrell of 1 million cubic feet per day per frac stage, with eight frac stages conducted.

Moberly Prospect

Crew drilled an initial test well on the Moberly Prospect in early 2009. Several prospective deep formations including the Montney have been identified in this well. Casing has been set on the initial well and the well is shut-in pending completion testing.

Aduro drilled a vertical Montney test well one quarter mile east of the Company's Moberly block in Q3 2010 and ran casing on it. The well tested gas from the Belloy formation and is shut-in pending pipeline connection.

Peace River CBM Project

Canada Energy developed the Peace River CBM Project on a 50/50 basis with Hudson's Hope Gas, Ltd. ("HHG"), a subsidiary of GeoMet Inc. (NASDAQ: GMET). HHG has acted as operator of the CBM Project. The 2008 Development Program included the drilling and completion of five new production wells, the connection of three existing wells, construction and installation of gas treating and compression facilities, and a pipeline and connection to Spectra's (formerly Duke Energy's) transcontinental pipeline. Initial dewatering of the eight connected wells began in calendar Q3 & Q4 of 2008. The gas plant/compressor station, pipeline connection, and gathering system were completed in December 2008, and production and gas sales began in January 2009. In April 2010, the eight producing CBM wells were shut-in.

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

The decision to shut the wells in was based upon continued monthly operating losses due to low gas prices and a longer than expected dewatering time to obtain gas production rates necessary to generate a positive cash flow. The Company continues to believe that the CBM Project has commercial potential and has put the Project on care and maintenance. The shut-in wells can be restarted in the future upon improvement in the gas prices and/or when the Montney wells are producing through the gas plant, thereby reducing the gas plant costs per well.

The Company has an on-going investigation into several innovative drilling and completion technologies which may lead to improved flowrates and reduced costs.

On June 26, 2012 the Company announced the acquisition of all of the outstanding shares of HHG from GeoMet Inc. for consideration of 2 million common shares of the Company. The 2 million Company shares were subject to a 12 month hold period. The Company now controls 100% of the CBM Project and gas plant.

On January 15, 2013 the Company transferred operatorship of the CBM project to a third party, but the Company retains the right during the two year period to reassume its role as operator at the Company's election. After two years, the Company is required to reassume the role of operator of the Project.

**Monias Prospect**

On April 1, 2008, the Company announced a joint venture with West Energy Ltd. (TSX: WTL) ("West") on the deep rights of the Company's Monias Prospect. Pursuant to the terms of the Agreement, West agreed to conduct an exploration program, the primary purpose of which is to test the potential of the Montney formation. According to the joint venture agreement, West operated the project. The initial program consisted of a three-dimensional seismic project over the majority of the Monias Prospect lands. West drilled and cased one well on the Monias Prospect. Daylight Energy Ltd. ("Daylight") bought West Energy in Q2 2010 and Daylight in turn was acquired by Sinopec in December 2011. In June 2012, Aduro Resources (private) bought Daylight's Monias area properties and became the Company's operating 60% partner on four sections at Monias. The Company owns 100% of three additional sections and a non-operated 35% of an eighth section at Monias.

The Company has provided a third party with a fixed charge security over its Monias assets to guarantee the Company's performance under related agreements.

**Area Activity**

The Company owns five net sections at Monias, three of which are owned 100% and are adjacent to the Shell acreage. Shell drilled a very successful vertical Montney test 1.5 miles from the Company's lease line in Q4 2009. Logs and cores on the 4-11 showed extraordinary reservoir thickness and quality. In the summer-fall 2010, Shell followed up the 4-11 with five horizontal wells drilled to within 150m - 800m of Canada Energy's lease line. Completion operations were performed on the wells in late 2010 and early 2011. The five wells were tested at restricted rates of between 6.0 and 8.1 mmcf/d. Shell has drilled a total of 24 Montney wells within three miles of the Company's Monias lands and has another 37 locations permitted. In Q4 2012, Shell drilled a Montney test well 3000' northeast of the Company's Monias lease line.

Aduro Resources Ltd. drilled a Montney test well two miles northeast of the Company's Monias block in the first quarter of 2012. The well was drilled vertically through the Montney section and intermediate casing was set in anticipation of a horizontal sidetrack when market conditions improve.

**Reserves**

The Company's Statement of Reserves Data and Other Oil and Gas Information is filed on the Sedar website at [www.sedar.com](http://www.sedar.com).

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

**Selected Summary Financial Information**

The following table provides a brief summary of the Company's financial operations for the three months ended July 31, 2013 and the years ended April 30, 2013 and 2012. The information has been prepared in accordance with IFRS. For more detailed information, refer to the related financial statements.

	July 31, 2013	April 30, 2013	April 30, 2012
	\$	\$	\$
Total assets	<b>76,379,632</b>	76,416,541	76,245,487
Oil and gas interests	<b>76,271,373</b>	76,219,804	75,360,372
Total current liabilities	<b>(129,450)</b>	(55,110)	(77,724)
Total long-term liabilities (1)	<b>(8,528,289)</b>	(8,514,777)	(8,029,762)
Net loss and comprehensive loss for the period	<b>(140,226)</b>	(571,347)	(830,807)
Basic and diluted loss per share	<b>(0.00)</b>	(0.01)	(0.01)
Cash dividends	-	-	-

(1) Long term liabilities include decommissioning liability and deferred income tax liability.

**Summary of Financial Results**

During the three month period ended July 31, 2013, the Company incurred a loss of \$140,226 (2012 – 136,125). Significant expenditures were incurred in the following categories:

- Administrative and management fees of \$95,011 (2012 - \$98,159) were mainly in connection with the Company's Vancouver head office \$33,000 (2012 - \$33,000) and Baton Rouge operational office \$62,011 (2012 - \$65,159). Please see additional discussion in the Related Party Disclosure section;
- Rent of \$6,752 (2012 - \$10,806) includes rent for the Company's offices in Vancouver of \$nil (2012 - \$4,188), and Baton Rouge of \$6,752 (2012 - \$6,618); and
- A deferred tax recovery of \$41,578 was recorded in the three month period ended July 31, 2013 (2012 – \$44,217).

During the period ended July 31, 2013, the Company capitalized \$50,539 (2012 - \$950,187) on the Peace River Project; \$1,030 (2012 - \$1,333) on the Monias Prospect; and \$nil (2012 - \$nil) on the Moberly Prospect. There were no properties written off during the period ended July 31, 2013 or in prior periods.

**Summary of Selected Quarterly Results**

The following is a summary of the Company's selected financial results for the eight most recently completed quarters. The information has been prepared in accordance with IFRS.

	Fiscal 2014	Fiscal 2013				Fiscal 2012		
	Q1 \$	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Q4 \$	Q3 \$	Q2 \$
Total assets	<b>76,379,632</b>	76,416,541	76,484,662	76,609,182	76,831,839	76,245,487	76,338,657	77,952,599
Long-term financial liabilities	<b>(129,450)</b>	(75,657)	(45,741)	-	-	-	-	-
Net (loss) income	<b>(140,226)</b>	(248,202)	(124,561)	(58,258)	(136,125)	33,719	(289,758)	(340,108)
Net (loss) income per common share basic and diluted	<b>(0.00)</b>	(0.00)	(0.00)	(0.00)	(0.00)	0.00	(0.00)	(0.00)

(1) The Company had no revenue and paid no dividends during the above periods.

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

Total assets fluctuated only slightly over the past eight quarters, with movements generally attributable to effects of net income or loss (excluding non-cash charges) and to fluctuations in working capital.

The Company's long term liabilities consist of decommissioning liability and deferred income tax liability.

Net (loss) income has been generally consistent or declining slowly over the past eight quarters due to declining levels of corporate and development activities, except as to the following significant fluctuations: in Q4, 2012, the Company recognized a deferred income tax recovery of \$240,492; in Q2, 2013, the Company recognized a deferred income tax recovery of \$190,266; and in Q3, 2013 the Company recognized a deferred income tax recovery of \$34,371; In Q4 2013 the company recognized a deferred income tax expense of \$49,442. In Q1, 2014 the company recognized a deferred income tax expense of \$41,578.

### **Liquidity and Capital Resources**

As at July 31, 2013, the Company had cash of \$59,869 (April 30, 2013 - \$151,438) and accounts receivable and prepaids of \$48,390 (April 30, 2013 - \$45,299) available to cover the Company's current liabilities of \$129,450 (April 30, 2013 - \$55,110). As at July 31, 2013, the Company had working deficit of \$21,191 compared to positive working capital of \$141,627 as at April 30, 2013. As at the date of this MD&A, the Company has working capital of approximately \$362,000.

During the period ended July 31, 2013, the Company recorded interest income of \$69 (2012 – \$707) from its deposit in the bank. The Company funded its operating during fiscal 2013 to date from its exiting working capital. The Company is dependent on the equity markets to fund the majority of its future development and exploration activities.

On August 12, 2013 the Company announced that it had completed the private placement sale of five million shares of the Company's common stock at \$0.10 per share for total net proceeds of \$500,000. There were no brokerage fees associated with the private placement. These shares are subject to a four-month hold period.

The Company does not know of any trends, demand, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, its liquidity either materially increasing or decreasing at present.

Material increases or decreases in liquidity are substantially determined by the success or failure of the development and exploration programs and by the Company's access to suitable financing.

### **Operating Cash Flow**

Net cash used in operating activities during the period ended July 31, 2013, was \$102,480 compared to net cash used in operating activities of \$234,301 during the period ended July 31, 2012.

### **Financing Activities**

The Company neither used nor generated any cash as a result of financing activities during the three months periods ended July 31, 2013 and 2012.

### **Investing Activities**

The Company invested cash of \$9,089 during the period ended July 31, 2013 for oil and gas interests, compared to \$152,274 invested during the period ended July 31, 2012. The company also redeemed \$20,000 (2012-\$nil) in cash from its reclamation bonds during the quarter ended July 31, 2013.

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

**Outstanding Share Data**

As at the date of this MD&A, there were 89,255,784 common shares and 6,866,000 stock options outstanding.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**Related Party Transactions**

**Key management and personnel compensation**

Key management personnel include the directors and other officers of the Company.

Salary and management fees, which include amounts paid to companies controlled by directors and is inclusive of payments for support staff, totalled \$98,159 for the period ended July 31, 2013 (2012 - \$101,294). Share based compensation received by key management during the period ended July 31, 2013 was \$7,637 (2012 - \$nil).

As at July 31, 2013, there were no related party balances arising from purchases of goods and services. The above transactions occurred in the normal course of operations and are recorded at the consideration established and agreed to by the related parties.

**Financial Instruments**

*Fair value*

The fair value of the Company's financial instruments is approximated by their carrying value as at January 31, 2013 due to their short term nature.

*Fair value hierarchy*

IFRS requires disclosure about fair market value measurements for financial instruments and measured at fair value using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three-level hierarchy is as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

The fair value of cash, accounts receivable, accounts payable and long-term payable are based on Level 1 inputs of the fair value hierarchy.

**Risk and Uncertainties**

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The Company manages risks to minimize potential losses. The main objective of the Company's risk management process is to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. A summary of financial risk factors related to the Company's business are provided in Note 11 of the Company's audited annual financial statements for the year ended April 30, 2013. Additional risks to which the Company is exposed are described below.



**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

The Company's operations and results are subject to a number of different risks at any given time. These factors, include but are not limited to disclosure regarding exploration, additional financing, project delay, titles to properties, price fluctuations and share price volatility, operating hazards, insurable risks and limitations of insurance, management, and regulatory requirements, environmental regulations risks. Exploration for gas and CBM resources involves a high degree of risk. The cost of conducting programs may be substantial and the likelihood of success is difficult to assess.

*Credit risk*

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to credit risk consist primarily of cash and accounts receivable. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

The Company reduces its credit risk by maintaining its bank accounts at large financial institutions. Receivables are amounts receivable from the Canadian federal government for the refundable HST/GST amounts. The credit risk on these amounts is minimal.

*Liquidity risk*

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal year. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due.

As at July 31, 2013, the Company had a cash balance of \$59,869 (April 30, 2013 - \$151,438) to settle current liabilities of \$129,450 (April 30, 2013 - \$55,110).

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company is exposed only to the interest rate risk to the extent that the cash maintained at the financial institutions is subject to floating rate of interest. The interest rate risk on the Company's cash is minimal. The Company is exposed to market risk as the ability of the Company to develop or market its properties and the future profitability of the Company is related to the market price of certain minerals.

*Foreign exchange risk*

The Company incurs operating expenses and capital expenditures mostly in Canadian dollars. The Company's exposure to assets and liabilities denominated in foreign currencies is minimal. Accordingly, the Company does not have a significant exposure to losses arising from fluctuations in exchange rates.

*Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its cash and bank loans which bear a floating rate of interest. The risk is not considered significant.

*Substantial capital requirements*

The Company anticipates that it will make substantial capital expenditures for the acquisition, exploration, development, and production of CBM and other reserves in the future and for BCOGC bonding requirements. If the Company's revenues or reserves decline, the Company may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

*Environmental risks*

All phases of the gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of gas, water or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

*Water disposal*

The coal beds from which CBM gas is produced frequently contain water that may hamper the Company's ability to produce gas in commercial quantities or affect the Company's profitability.

Unlike conventional natural gas production, coal beds frequently contain water that must be removed in order for the gas to desorb from the coal and flow to the well bore. The Company's ability to remove and dispose of sufficient quantities of water from the coal seam will determine whether or not the Company can produce gas in commercial quantities. The cost of water disposal may affect the Company's profitability.

Where water produced from the Project fails to meet the quality requirements of applicable regulatory agencies or wells produce water in excess of the applicable volumetric permit limit, the Company may have to shut in wells, reduce drilling activities, or upgrade facilities. The costs to dispose of this produced water may increase if any of the following occur:

- the Company cannot obtain future permits from applicable regulatory agencies;
- water of lesser quality is produced;
- wells produce excess water; or
- new laws and regulations require water to be disposed of in a different manner.

*Reliance on operators and key employees*

The Company is not the operator on all of its prospects and may not be the operator of certain gas properties in which it acquires an interest. To the extent the Company is not the operator of its gas properties; the Company will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. The operator may incur liability for liens related to its subcontractors. If subcontractors fail to timely pay for materials and services, the assets of the operator could be subject to materialmen's and workmen's liens. In that event, the operator could incur excess costs in discharging such liens.

In addition, the success of the Company will be largely dependent upon the performance of its management and key employees. The Company does not have any key man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Company.

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

*Conflicts of interest*

Certain of the directors and officers of the Company are also directors and officers of other oil and gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under the Business Corporations Act.

*Permits, licenses and government regulations*

Governmental permits and approvals for drilling operations must be obtained for the Project, which can be a costly and time consuming process and result in restrictions on operations.

Regulatory authorities exercise considerable discretion in the timing and scope of permit issuance. Requirements imposed by these authorities may be costly and time consuming and may result in delays in the commencement or continuation of exploration or production operations. For example, as the operator of the Project the Company will often be required to prepare and present to federal, provincial or local authorities data pertaining to the effect or impact that proposed exploration for or production of gas may have on the environment. Further, the public may comment on and otherwise engage in the permitting process, including through intervention in the courts. Accordingly, the permits that are needed may not be issued, or if issued, may not be issued in a timely fashion, or may involve requirements that restrict the ability to conduct the operations on the Project or to do so profitably.

Oil and gas exploration is subject to significant regulation. Changes in these regulations may have a material adverse impact on the Company's operations.

*Title matters*

Although title reviews on the Company's property interests will be done or have been done to the satisfaction of management of the Company, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the interests of the Company. Such defects in title could result in a reduction of the possible revenue to be received by the Company. In addition, the Company's properties which are held in the form of licences, leases and/or working interests in licences and leases may be adversely affected if the holder of the licence or lease fails to meet the specific requirements of a licence or lease. There can be no assurance that any of the obligations required to maintain such licences or leases will be met. The termination or expiration of such licences, leases or working interests in licences or leases may have a significant material adverse effect on the Company's results of operations and business.

*Aboriginal land claims*

Many lands in British Columbia are or could become subject to aboriginal land claims to title, which could adversely affect the Company's title to its properties. While the Company actively consults with all groups which may be adversely affected by the Company's activities, including aboriginal groups, there can be no assurance that satisfactory agreements can be reached.

*Additional funding requirements*

Since the Peace River Project is in its early stage and is currently not in production due to low gas prices, the Company is still dependant on the equity markets as its major source of operating working capital. From time to time, the Company may require additional financing in order to carry out its acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. As the Company's revenues have ceased as a result of lower gas prices, it will affect the Company's ability to expend the necessary capital to replace its reserves or to maintain its production. There can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favorable terms.

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

*Company not the operator of the Peace River, Moberly and Deep Rights on Monias Projects*

The Company is not the operator of the above Projects and will have limited or no control over these Projects. More specifically, the Company will have limited or no control over the following: the timing of the drilling and recompleting of wells; the timing and amounts of production; and the development and operating costs.

*Issuance of debt*

From time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. The Company's Articles do not limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

*Availability of drilling equipment and access restrictions*

CBM exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities.

### **Critical Accounting Policies**

*Basis of presentation*

The Company's condensed consolidated interim financial statements for the three month period ended July 31, 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended April 30, 2013, which have been prepared in accordance with IFRS as issued by the IASB.

*Basis of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Hudson's Hope Gas, Ltd. ("HHG"). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control of HHG was obtained effective June 26, 2012 when the Company acquired all of the outstanding shares of HHG.

All intercompany balances and transactions, income and expenses have been eliminated upon consolidation.

*Critical judgments and sources of estimation uncertainty*

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Critical Judgments**

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

- The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.
- Management is required to assess impairment in respect of the Company's oil and gas interests. The triggering events are defined in IFRS 6. In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.

Management has determined impairment indicators were present in respect of its Peace River Project, Monias Prospect and Moberly Prospect and as a result an impairment test was performed.

### **Estimation Uncertainty**

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- The assessment of any impairment of oil and gas properties is dependent upon the recoverable amount that take into account factors as such as reserves, economic and market conditions and the useful lives of assets. As a result of this assessment, management has carried out an impairment test on the Company's Peace River Project, Monias Prospect and Moberly Prospect.

The fair value of Peace River Project used in impairment calculations are based on estimates of crude oil and natural gas reserves, oil and gas prices and future costs required to develop those reserves, and estimated value of undeveloped land. By nature, estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the financial statements of future periods could be material. Undeveloped land is valued at fair value based on the value of comparable properties. The impairment test compares the carrying value of the Peace River Project at the reporting date with the expected discounted cash flows from its 2P reserves and the estimated value of the undeveloped land. No impairment is required as a result of the impairment test.

Currently, the Company's carrying value for its undeveloped deep and shallow rights approximates \$800 per net acre, which the Company believes is consistent with comparable land values. If the Company used a land value \$100 less per net acre in the fair value calculation, an impairment charge of approximately \$7.9 million would have been recognized.

The fair value of Monias Prospect used in impairment calculations are based on estimates of crude oil and natural gas reserves, oil and gas prices and future costs required to develop those reserves. The Impairment test compares the carrying value of the Monias Prospect at the reporting date with the expected discounted cash flows from its 2P reverse. No impairment is required as a result of the impairment test.

- The Company has recognized a provision for a decommissioning liability associated with its oil and gas interests. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to restore property to its original condition and the expected timing of those costs. The carrying amount of the liability at July 31, 2013 is \$1,372,387 (April 30, 2013 - \$1,364,839).
- If the estimated pre-tax discount rate used in the calculation was decreased by 1%, the carrying amount of the provision would have been approximately \$273,000 lower. If the estimated pre-tax discount rate used in the calculation was increased by 1%, the carrying amount of the provision would have been approximately \$224,000 higher.
- The calculation of income taxes requires judgement in applying tax laws and regulations, estimating the timing of the reversal of temporary differences, and estimating the realizability of deferred tax assets. These estimates impact current and deferred income tax assets and liabilities, and current and deferred income tax expenses (recovery).



**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

- The calculation of share-based compensation requires estimates of volatility, forfeiture rates and market prices surrounding the issuance of stock options. These estimates impact share-based compensation expense and share-based payment reserve. The estimated fair value of the Company's financial assets and liabilities are by their nature, subject to measurement uncertainty.

***Oil and gas interests***

All costs directly associated with oil and gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include costs to acquire acreage and exploration rights, geological and geophysical costs, decommissioning liabilities, exploration and evaluation drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net earnings as general exploration expense.

When an area is determined to be technically feasible and commercially viable through the granting of a permit, the accumulated costs are transferred to property, plant and equipment. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to net earnings as general exploration expenses.

***Impairment of non-financial assets***

Impairment tests for non-financial assets are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. If any indication of impairment exists, an estimate of the non-financial asset's recoverable amount is calculated. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value in use. If the carrying value of a non-financial asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit and loss so as to reduce the carrying amount of the non-financial asset to its recoverable amount.

***Joint operations***

Substantially all of the oil and gas activities of the Company are conducted jointly with others, and these financial statements reflect only the Company's proportionate interest in such activities.

***Decommissioning liabilities***

Decommissioning liabilities include present obligations where the Company will be required to retire tangible non-financial assets such as producing well sites and facilities. The decommissioning liabilities are measured at the present value of the expenditure expected to be incurred using a risk-free discount rate. The associated asset retirement obligation is capitalized as part of the cost of the related non-financial assets. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liabilities and the related decommissioning cost.

Increases in decommissioning liabilities resulting from the passage of time are recorded as accretion of decommissioning liabilities in the statement of operations and comprehensive loss. Actual expenditures incurred are charged against the decommissioning liabilities as incurred.

***Income taxes***

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Corporation does not consider it probable that a deferred tax asset

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

will be recovered, the deferred tax asset is reduced.

***Share-based payment transaction***

The share option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in share-based payment reserve. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value for employee options is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or the services.

***Loss per share***

The Company presents basic loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. In reporting periods when a loss is incurred, potential issuance of shares would be anti-dilutives and therefore, basic and diluted loss per share are the same.

***Financial instruments***

On initial recognition, all financial assets and financial liabilities are recorded at fair value plus directly attributable transaction costs, other than financial assets and liabilities classified as at fair value through profit or loss. The directly attributable transaction costs of financial assets and liabilities classified as at fair value through profit or loss are expensed in the period they are incurred.

**Financial assets**

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss. Cash and investment are classified as fair value through profit or loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Accounts receivable are classified as loans and receivables.

*Held-for-trading* - This category comprises derivatives, or assets acquired or incurred principally for short-term profit taking or have been designated as held-for-trading on initial recognition. They are measured at fair value at the end of each period with changes in fair values recorded in earnings in the period they occur.

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

*Held-to-maturity* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the asset is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the asset, including impairment losses, are recognized in the statement of operations and comprehensive loss.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of operations and comprehensive loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

#### **Financial liabilities**

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

*Other financial liabilities*: This category includes accounts payables and accrued liabilities and bank loan, all of which are recognized at amortized cost at the settlement date using the effective interest method of amortization.

#### ***New Accounting Standards and recent pronouncements***

The following is an overview of accounting standard changes that the Company will be required to adopt in future years. The Company does not expect to adopt any of these standards before their effective dates. The Company continues to evaluate the impact of these standards on its financial statements.

- IFRS 9 - Financial Instruments. This standard partially replaces IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 measures financial assets, after initial recognition, at either amortized cost or fair value. Existing IAS 39 classifies financial assets into four measurement categories. The standard is effective for annual periods beginning on or after January 1, 2015. In the year of adoption, the Company is required to provide additional disclosures relating to the reclassified financial assets and liabilities. The Company may, but is not required to, apply the standard retroactively. In and after the year of adoption, certain disclosures relating to financial assets will change to conform to the new categories.

#### **Investor Relations Activities**

Mr. John Proust, a Director of the Company, coordinates investor relations activities.

#### **Additional Information and Continuous Disclosure**

Additional information on the Company is available through regular filings of press releases and financial statements on SEDAR [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.canadaenergypartners.com](http://www.canadaenergypartners.com).

**CANADA ENERGY PARTNERS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED JULY 31, 2013**

**Cautionary Note Regarding Forward-Looking Statements**

Certain of the statements made and information contained herein is "forward-looking information" within the meaning of the British Columbia Securities Act. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "anticipates", "plans", "budget", "scheduled", "continue", "estimates", "forecasts", "expect", "is expected", "project", "propose", "potential", "targeting", "intends", "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur" or "be achieved" or the negative connotation thereof. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by readers, as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement. In particular, this MD&A contains forward-looking statements, pertaining to the following: capital expenditure programs, development of resources, treatment under governmental and taxation regimes, expectations regarding the Company's ability to raise capital, expenditures to be made by the Company and its joint venture partners on its properties and work plans to be conducted. With respect to forward-looking statements listed above and contained in the MD&A, the Company has made assumptions regarding, among other things:

- uncertainties relating to receiving well permits in British Columbia;
- the impact of increasing competition in the shale gas business;
- unpredictable changes to the market prices for natural gas;
- exploration and developments costs for its properties;
- availability of additional financing or joint-venture partners;
- anticipated results of exploration and development activities; and
- the Company's ability to obtain additional financing on satisfactory terms.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A: volatility in the market price for natural gas; uncertainties associated with estimating resources; geological, technical, drilling and processing problems; liabilities and risks, including environmental liabilities and risks, inherent in natural gas extraction operations; unanticipated reclamation expenses; fluctuations in currencies and interest rates; incorrect assessments of the value of acquisitions; unanticipated results of exploration activities; competition for, amongst other things, capital, undeveloped lands and skilled personnel; title disputes or claims; limitations on insurance coverage; lack of availability of additional financing and/or joint venture partners and unpredictable weather conditions. Although Canada Energy has attempted to identify important factors that could cause results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Readers are cautioned that the foregoing lists of factors are not exhaustive. Forward looking statements are made as of the date hereof and accordingly are subject to change after such date. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.